

For release only by the
House Committee on Appropriations

Statement by
Dr. Charles Lambert
Acting Under Secretary of Agriculture
for Marketing and Regulatory Programs
before the
House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

March 15, 2006

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs (MRP) of the U.S. Department of Agriculture and to present our fiscal year (FY) 2007 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Agricultural Marketing Service (AMS), and the Grain Inspection, Packers and Stockyards Administration (GIPSA).

With me today are Mr. Jeremy Stump, Acting Deputy Under Secretary for MRP; Dr. Ron DeHaven, Administrator of APHIS; Mr. Lloyd Day, Administrator of AMS; and Mr. James Link, Administrator of GIPSA. They have statements for the record and will answer questions regarding specific budget proposals.

MRP has addressed several broad goals and objectives to increase marketing opportunities and to protect American agriculture from damages caused by pests and diseases, both intentional and unintentional. The key to private sector financial success is relatively simple. First, offer the highest quality products. Second, produce them at the lowest possible cost. And, third, earn a fair price in the marketplace.

MRP helps American farmers and ranchers in several ways. AMS and GIPSA certify the quality of agricultural commodities and provide industry with a competitive edge earned by the USDA seal of approval for grading and inspection. APHIS protects the health of plants and animals, thereby keeping costs low. APHIS also provides plant and animal sanitary and phytosanitary (SPS) expertise during international negotiations to maintain and open markets around the world, and GIPSA works to ensure that livestock producers have a level playing field upon which to compete. A healthy and marketable product provides the foundation of competitive success.

MRP INITIATIVES

MRP has identified three areas for special attention to make American agriculture more competitive. They include:

Protect Plant and Animal Health and Ensure Quality. MRP will continue to work closely with the Department of Homeland Security (DHS) to prevent the entry of foreign plant and animal pests and diseases through the Agricultural Quarantine Inspection Program (AQI). We will continue to work with farmers and ranchers to control endemic pests and diseases at minimal levels. Through MRP's commodity grading and inspection programs, we will support our producers in the marketing of their high quality crops and livestock.

Enhance Market Access. Market access can be impaired through technical barriers and SPS measures. MRP will continue to work closely with international counterparts to educate them about our systems; to learn more about the foreign country requirements; and to certify that U.S. products meet their standards.

Harmonize International Standards. MRP will continue to provide expertise in an effort to harmonize sanitary and phytosanitary measures. Since risk is inherent and fair trade relies upon the same standards being applied to all parties, MRP will increase its efforts with the World Organization for Animal Health and the International Plant Protection Convention to develop standards and processes for two-way trade to exist, with restrictions and mitigations based on science to reduce risk. Moving away from an “all or nothing” approach makes trade therefore less risky, as a localized or contained outbreak has fewer effects on exports and thus on the economy. In a similar vein, a level playing field in world markets depends on technical standards that describe the quality and other characteristics of agricultural products in a manner that does not discriminate against U.S. producers and shippers. MRP will redouble its efforts in a variety of international standard setting organizations and work closely with our sister agencies to ensure that technical standards do not become technical barriers.

FUNDING SOURCES

The MRP activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that the MRP agencies carry out programs of close to \$2 billion, with \$412 million funded by fees charged to the direct beneficiaries of MRP services and \$450 million from Customs receipts.

On the appropriation side, the Animal and Plant Health Inspection Service is requesting about \$953 million for salaries and expenses and \$6 million for repair and maintenance of buildings and facilities; the Agricultural Marketing Service is requesting \$85 million; and the Grain Inspection, Packers and Stockyards Administration is requesting \$42 million.

The budget proposes user fees that, if enacted, would generate about \$42 million in savings to the U.S. taxpayer. Legislation will be proposed to provide USDA the authority to recover the cost of administering the Packers and Stockyards Act, developing grain and other commodity standards that are used to support fee-based grading programs and for other purposes, providing Federal oversight of marketing agreements and orders, and inspecting entities regulated under the Animal Welfare Act. I will use the remainder of my time to highlight the major activities and our budget requests for the Marketing and Regulatory Programs.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to enhance market access in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. I would like to highlight some key aspects of the APHIS programs:

Improve Plant and Animal Health. While APHIS continues to work closely with the Department of Homeland Security (DHS) to exclude agricultural health threats, it retains responsibility for promulgating regulations related to entry of passengers and commodities into the United States. APHIS' efforts have helped keep agricultural health threats away from U.S. borders through increased offshore threat-assessment and risk-reduction activities. APHIS has also increased an already vigilant animal and plant health monitoring and surveillance

system to promptly detect outbreaks of foreign and endemic plant and animal pests and diseases.

Since June, 2004, when we launched the one-time, significantly enhanced surveillance program for BSE, we have tested about 637,000 high-risk animals as of March 3, 2006, and an additional 21,000 clinically-normal animals. Only one sample has tested positive. APHIS is in the process of evaluating the enhanced program, though it certainly would not be premature to say that by any measure the incidence of BSE in the United States is extremely low.

In addition, we are slowly moving ahead with the National Animal Identification System (NAIS). All 50 States, five Tribes, and two U.S. Territories are registering premises with an estimated total of about 205,000 premises registered as of February 13, 2006. APHIS and its State and Tribal cooperators are registering hundreds of premises each week, and we are also in the preparation stage to begin allocation of individual animal identification numbers.

We have been closely monitoring the very alarming spread of highly pathogenic avian influenza overseas. USDA is a full partner in the government-wide effort to prepare the country for a potential pandemic and the worldwide effort to stop the spread of H5N1 virus at its source overseas. We appreciate funding provided through the December, 2005, pandemic influenza emergency supplemental. We

are using those funds for international efforts, domestic surveillance of poultry and migratory birds, diagnostics, and emergency preparedness and response.

Because efforts to exclude foreign pests and diseases are not 100 percent successful, APHIS also assists stakeholders in managing new and existing agricultural health threats, ranging from threats to aquaculture, crops, tree resources, livestock and poultry. In addition, APHIS assists stakeholders on issues related to conflicts with wildlife and animal welfare.

Enhance Market Access. The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates SPS standards, resolves issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns.

In FY 2005, reopening markets for United States products posed one of the greatest challenges. In regard to beef markets that were closed to U. S. exports because of BSE, APHIS has contributed to regaining at least partial access to 26 markets. Altogether, APHIS resolved 79 SPS issues in FY 2005, allowing approximately \$1.4 billion worth of trade to occur.

Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and encourage development of a technology that holds great promise. APHIS' Biotechnology Regulatory Services unit coordinates our services and activities in this area and focuses on both plant-based biotechnology and transgenic arthropods. We also are examining issues related to transgenic animals.

APHIS' 2007 Budget Request

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$953 million for salaries and expenses. There are substantial increases to support the Administration's Food and Agriculture Defense Initiative, enhance avian influenza efforts, address SPS trade barriers, and deal with specific threats to the agriculture sector. In addition, existing user fees of about \$139 million will support Agricultural Quarantine Inspection and related activities. A brief description of key efforts supported by the 2007 budget request follows.

A total of about \$182 million for Foreign Pest and Disease Exclusion. Efforts will focus on enhancing our ability to exclude Mediterranean fruit fly, foreign animal diseases, and screwworm. In addition, we also request funds to open offices in Thailand, India, Italy, and West Africa to facilitate U.S. exports.

A total of about \$304 million for Plant and Animal Health Monitoring and Surveillance. Due to the critical role of APHIS in protecting the Nation from both deliberate and unintentional introductions of an agricultural health threat, the budget requests an increase of about \$62 million as part of the Food and Agriculture Defense Initiative. This request would provide: enhanced international information gathering about potential threats abroad; greater plant pest detection and safeguarding; increased national wildlife and animal health surveillance; improved ability to respond to plant or animal disease outbreaks; and vaccines and supplies for the National Veterinary Stockpile. We will also continue efforts to build the National Animal Identification System to limit the spread of a potential animal disease outbreak.

A new request is intended to stop, slow, or otherwise limit the spread of highly pathogenic avian influenza to the United States and to limit the domestic spread of a pandemic. The budget includes an additional \$57 million for international capacity building (e.g., providing in-country veterinary expertise overseas); domestic surveillance and diagnostics (including wildlife surveillance); and emergency preparedness and response. This would continue efforts that were started with funds from the December, 2005, pandemic influenza emergency supplemental.

A total of \$344 million for pest and disease management programs. Once a pest or disease is detected, prompt eradication will reduce long-term damages. In cases where eradication is not feasible (e.g., European gypsy moth), attempts are made to slow the advance, and damages, of the pest or disease. APHIS provides technical and financial support to help control or eradicate a variety of agricultural threats. The budget proposes a number of increases, including those for citrus canker, emerald ash borer, and sudden oak death. Other programs are reduced. For example, successes in boll weevil eradication efforts allow a reduction in that program. Included is an increase of \$10 million for competitive grants to fund the application of innovative private-sector solutions to real-world pest and disease problems.

A total of \$20 million for the Animal Care programs. Additional funding will help APHIS maintain its animal welfare and horse protection programs despite the rapid growth in the number of new licensees and registrants. The budget includes a proposal to collect \$8 million in fees from regulated entities to help cover costs associated with inspections under the Animal Welfare Act.

A total of \$94 million for Scientific and Technical Services. Within USDA, APHIS has chief regulatory oversight of genetically modified organisms. To help meet the needs of this rapidly evolving sector, the budget includes a request to, in part, enhance our regulatory role towards transgenic animals and disease agents. Also, APHIS develops methods and provides diagnostic support to prevent,

detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent ineffective or harmful animal biologics from being marketed.

A total of \$10 million for improving security and IT operations. A portion of the increase would be used to upgrade key computer resources for eGov requirements and other efforts. It also includes providing the State Department funds to help cover higher security costs for APHIS personnel abroad.

AGRICULTURAL MARKETING SERVICE

The mission of the AMS is focused on facilitating the marketing of agricultural products in the domestic and international marketplace, ensuring fair trading practices, and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. The Agency accomplishes this mission through a wide variety of publicly and user funded activities that help its customers improve the marketing of their food and fiber products and ensure such products remain available and affordable to consumers. Consequently, most AMS programs enhance access to current trading information, including availabilities of supply, location and size of demand, underutilized market facilities, and availability of means of transportation. In addition, the Standardization program contributes to the harmonization of international quality standards.

Market News. Market news reports improve market efficiency for all parties by offering equal and ready access to current, unbiased market information so that agricultural producers and traders can determine the best place, price, and time to buy or sell. AMS Market News provides this information by reporting current prices, volume, quality, condition, and other market data on farm products in more than 1,300 production areas and specific domestic and international markets. In October 2005, AMS launched a new Market News Web Portal, making Fruit and Vegetable and Livestock and Grain reports immediately available for users, with other AMS commodities to be added in coming months.

The Livestock Mandatory Price Reporting Program continues to provide more than 100 daily, weekly, or monthly reports on fed cattle, swine, lamb, beef, and lamb meat market transactions. However, since legislative authority for the Program lapsed on September 30, 2005, the program operates on a voluntary basis. The Government Accountability Office recently reviewed the program and we are making improvements in response to their recommendations.

Commodity Standards. AMS works with the agricultural industry to establish and improve commonly recognized quality descriptions for agricultural commodities that support access to domestic and international markets. The Standardization program supports exports of U.S. agricultural products by helping to represent the interests of U.S. producers in a variety of international

standards development meetings. AMS experts continue to participate in developing international dairy, meat, poultry, fruit, and vegetable standards.

Country of Origin Labeling. AMS is implementing a Country of Origin Labeling surveillance and enforcement program for fish and shellfish. Labeling requirements for these products became mandatory on April 4, 2005, and AMS has educated the industry on the documentation and records required to substantiate country of origin and method of production claims.

National Organic Program. The National Organic Standards program supports market access for organic producers by setting national standards for organic products sold in the U.S., which provides assurance for consumers that the organic products labeled “organic” uniformly meet those requirements. The U.S. organic food industry has increased to an \$18 billion annual sales level and is still growing.

Pesticide Data and Microbiological Data Programs. AMS also provides consumer assurance by collecting pesticide residue data and microbiological baseline data. In 2005, the Pesticide Data program performed over 120 thousand analyses on more than 13 thousand samples. The data gathered and reported by AMS on pesticide residues supports science-based risk assessments performed by a number of entities, including regulatory agencies.

Transportation Services. The Transportation Services program supports market access by facilitating the movement of U.S. agriculture products from farm to market. This program helps maintain farm income, expand exports, and sustain the flow of food to consumers by providing “how to” technical expertise, research, and data on domestic and international transportation to growers, producers, and others in the marketing chain, and for government policy decisions. The Transportation Services program also produces periodic publications that improve market access by providing information for agricultural producers and shippers on trends, availability, and rates for various modes of transportation, including grain and refrigerated transport, agricultural containers, and ocean shipping. In FY 2005, the program greatly expanded its reporting to keep the Secretary and Administration officials well-apprised on the impacts of Hurricanes Katrina and Rita on agricultural transportation.

Wholesale, Farmers, and Alternative Markets. AMS program experts, in cooperation with local and city agencies, improve market access to market facilities by assisting local efforts to develop or improve wholesale and farmers markets, and to discover other direct marketing opportunities. This program also supports research projects to help agricultural producers discover new or alternative marketing channels and new technology. For 2006, AMS was appropriated funds to implement the Farmers Market Promotion program. The program will make grants of up to \$75,000 to eligible entities, such as agricultural

cooperatives, local governments, and others, to establish, expand, and promote farmers' markets and other direct-to-consumer marketing channels.

Federal/State Marketing Improvement Program (FSMIP). AMS helps to resolve local and regional agricultural market access problems by awarding Federal matching grants for projects proposed by State agencies. In 2005, the FSMIP program allocated grant funds to 21 States and Puerto Rico for 27 projects such as studies on linking producers with new buyer groups and innovative uses for locally important agricultural products.

Commodity Purchases. USDA nutrition programs provide growers and producers with access to an alternative outlet for their commodities. AMS food purchases stabilize markets and support nutrition programs, such as the National School Lunch Program, the Emergency Food Assistance Program, the Commodity Supplemental Food Program, and the Food Distribution Program on Indian Reservations. AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Agency (FSA) to administer USDA commodity purchases and to maximize the efficiency of food purchase and distribution operations. In FY 2006, we will begin the development of a Web-based Supply Chain Management System, which will enhance our ability to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all food assistance programs every year in addition to those price-support commodity products maintained in inventory.

AMS' 2007 budget request

For 2007, the AMS budget proposes a program level of \$730 million, of which \$195 million (nearly 27 percent) will be funded by existing user fees, \$450 million (approximately 62 percent) by Section 32 funds and \$85 million (about 12 percent) by appropriations, which includes \$14.5 million to be derived from proposed new user fees. More specifically, the budget includes the following:

An increase of about \$1 million for the National Organic Program. This request is to ensure that the National Organic Program can meet the needs of the rapidly growing organic industry. The increase will support: rulemaking needed to address a court order that found three elements of the national organic standards regulations inconsistent with statutory authority; renewal of substances on the National List of Approved and Prohibited Substances that are set to expire on October 21, 2007; and increased compliance actions, including training sessions for certifying agents.

An increase of about \$400,000 for the Federal Seed Act Program. AMS would assume seed testing in those States that have withdrawn from the program and work with seed producers and States to improve the accuracy of seed sampling and testing programs.

An increase of about \$2.8 million for a food protection program. AMS would promote the protection of commodities provided to the National School Lunch Program (NSLP) and other Federal nutrition assistance programs by incorporating food security attributes into purchase specifications, conducting vulnerability assessments needed to develop industry guidance on how to protect products purchased for distribution through NSLP, and development of model food security plans for products of importance to NSLP.

Funding of more than \$1 million for payments to States. Under the Federal-State Marketing Improvement Program, AMS awards Federal matching grant funds to State agencies to address local and regional agricultural marketing problems.

Funding of nearly \$10 million within Marketing Services for the Web-based Supply Chain Management System. As mentioned earlier, this system, the successor to the Processed Commodities Inventory Management System, will improve information technology systems used to manage and control commodity orders, purchases, and delivery. Discretionary appropriated funding is requested in FY 2007 to continue developing the system.

As Secretary Johanns testified before this committee last month, the 2007 budget funds our most important priorities while exercising fiscal discipline that is necessary to reduce the Federal deficit. The AMS budget has proposals that moves us in the right direction while continuing to meet key priorities.

A decrease of about \$6.3 million for the termination of the Microbiological Data Program (MDP). The FY 2007 budget does not request funding to continue the MDP because it is difficult to determine to what extent the data is used to support risk assessments. Sample origin data is not collected which limits the use of the data in epidemiological investigations aimed at determining the source of outbreaks of foodborne illness. In response to these findings and the need to limit Federal spending, the program is proposed for termination in 2007.

User fees. The budget proposes to collect about \$2 million through user fees for the development of domestic commodity grade standards that are associated with a grading program. Users of grading services are direct beneficiaries of commodity standards and, therefore, should be charged for the development of commodity grades associated with the grading and inspection program. In order to implement this proposal, legislation will be submitted to Congress to authorize these fees. Likewise, approximately \$12 million in user fees would be collected for Federal administration of marketing agreements and orders, which is currently funded through Section 32. The local market administrator or committee will be billed for their portion of Federal administrative costs.

GRAIN INSPECTION,
PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to enhance market access for livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Before proceeding, I want to note that we are taking very seriously the recent audit by the Office of Inspector General (OIG) of the P&SP and we have established an aggressive schedule to improve enforcement of the Packers and Stockyards Act. The audit identified areas where program management was not up to the high standard that this Administration expects and our stakeholders deserve. The OIG provided ten recommendations for strengthening the P&SP. GIPSA concurs with all recommendations and is taking aggressive action to implement them.

Packers and Stockyards Programs. Recognizing what needs to be improved, the strategic goal for P&SP is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with 152 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of

about \$120 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

The Swine Contract Library began operation on December 3, 2003, and continues, though since October, 2005, it has been on a voluntary basis since the legislative authority in the Livestock Mandatory Price Reporting Act lapsed. Producers can see contract terms, including, but not limited to, the base price determination formula and the schedules of premiums or discounts, and packers' expected annual contract purchases by region.

Progress continues to be made on the Livestock and Meat Marketing Study, which examines broad issues surrounding packer ownership of livestock. The contractor for the study, the Research Triangle Institute (RTI), released an interim report in August, 2005. The final report is scheduled for release in early 2007. We recognize that this is later than expected, but given the complexity of issues, more time is needed to adequately analyze them.

Federal Grain Inspection Service. FGIS facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act and the Agricultural Marketing Act of 1946. As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S.

grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology traits in grains and oil seeds. It also provides technical assistance to exporters, importers and end users of US grains and oilseeds, as well as other USDA agencies, industry organizations, and other governments. These efforts help facilitate the sale of US products in international markets.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. In FY 2005, GIPSA employees issued nearly 3 million certificates representing approximately 245 million tons of grain. One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In FY 2005, FGIS received only ten complaints regarding poor quality and one complaint regarding inadequate weights from importers on grains inspected under the U.S. Grain Standards Act. These involved 456,069 metric tons, or about 0.4 percent by weight, of the total amount of grain exported during the year.

I would like to acknowledge the efforts of GIPSA employees in the aftermath of Hurricanes Katrina and Rita. We are proud to report that no service requests were denied as a result of the hurricanes. GIPSA personnel were on duty and ready to provide service as soon as the industry resumed operations. Our local personnel showed fortitude and determination in addressing both the personal and work-related challenges created by the storms.

GIPSA's 2007 Budget Request

For 2007, the budget proposes a program level for salaries and expenses of about \$84 million, of which more than \$42 million is from existing inspection and weighing user fees. Of the appropriations request of almost \$42 million, approximately \$20 million is devoted to the grain inspection activities including standardization, compliance, and methods development activities and about \$21 million to the P&SP. The 2007 budget includes the following program increases:

About \$2.9 million for IT initiatives. This would continue the agency's multi-year IT modernization efforts, of which \$1.4 million is one-time funding. The agency's eGov initiatives would facilitate the electronic transfer of information to and from stakeholders, and allow more efficient utilization by GIPSA of information such as program reviews and evaluations, agricultural product standards, inspection data, field test equipment reporting.

About \$400,000 to facilitate U.S. grain exports to Asia. GIPSA would establish an ongoing presence in Asia to expand upon our successful international services and trade activities currently provided on a temporary basis.

User fees. Two user fees are included in the budget. One would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. This fee proposal would enable GIPSA to recover almost \$4 million in FY 2007. Also, a further \$16 million in license fees would be collected for the Packers and Stockyards program.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2007 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to improving plant and animal health and ensuring quality, enhancing market access, and achieving harmonization of international standards. It also reduces the deficit and protects American agriculture from terrorists. We are happy to answer any questions.